

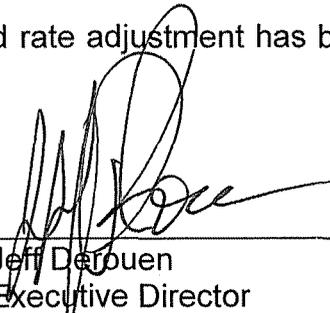
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LEDBETTER SEWER)
DISTRICT FOR AN ADJUSTMENT IN RATES) CASE NO.
PURSUANT TO THE ALTERNATIVE RATE) 2012-00057
FILING PROCEDURE FOR SMALL UTILITIES)

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of April 30, 2012, the attached report containing the findings and recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED MAY 07 2012

cc: Parties of Record

STAFF REPORT
ON
LEDBETTER SEWER DISTRICT
CASE NO. 2012-00057

On February 23, 2012, Ledbetter Sewer District (“Ledbetter”) filed an application with the Commission to adjust its current rates for sewer service. Using its historical operations for the calendar year ending December 31, 2009,¹ as adjusted for known and measureable changes, Ledbetter proposes rates that will produce additional annual revenue from sewer operations of \$115,565, an increase of 32.14 percent over normalized revenue of \$359,592. Ledbetter proposes to allocate the proposed revenue increase equally to its existing rate blocks. Using this method, for a customer who uses 5,000 gallons of water monthly, his or her average customer bill will increase from \$47.99 to \$63.45.

Commission Staff members Daryl Parks and Eddie Beavers performed a limited financial review of Ledbetter’s test-year operations to determine whether reported operating revenues and expenses are representative of normal operations and whether the proposed adjustments are reasonable. They did not pursue and have not addressed in this report insignificant or immaterial discrepancies. Where they have not expressly addressed a test-period expense, they found insufficient evidence to contest the reasonableness of that expense.

¹ Ledbetter requested and was granted deviation from 807 KAR 5:076, Section 8, which requires that the test period used to determine the reasonableness of the proposed rates must coincide with the reporting period of the applicant’s annual report for the immediate past year.

This report summarizes Commission Staff's review and recommendations. Mr. Beavers reviewed Ledbetter's operating revenue calculations, its calculation of the proposed rates, and its proposed rate design. Mr. Parks addressed all pro forma expense adjustments and the revenue requirement determination.

In its application, Ledbetter calculated its overall revenue requirement as \$476,637. In making this calculation, Ledbetter used the depreciation schedule for its water operations instead of its sewer operations, and erroneously reduced test-year depreciation expense for sewer operations by \$2,230. Using the correct depreciation schedule, a copy of which is appended to this report as Appendix D, Commission Staff finds the test-year sewer depreciation to be \$110,747.

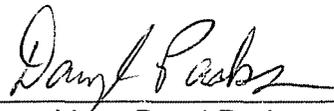
Commission Staff finds that all other proposed adjustments to test-year operations are reasonable and should be accepted. It further finds that Ledbetter's pro forma operating expenses are \$343,605, \$2,230 more than Ledbetter reported in its application. Commission Staff's calculation of pro forma operating expenses is shown in Appendix A. Appendix B contains detailed explanations for all adjustments to test-year operations. Appendix C of this report contains a comparison of Ledbetter's and Commission Staff's calculations of the overall revenue requirement and required revenue increase.

Neither Ledbetter nor Commission Staff performed a cost-of-service study in this case. Commission Staff agrees with Ledbetter's proposal that each rate block within the current rates be increased by an equal percentage derived from the percentage increase in revenue requirement over adjusted test-period revenues. Using these principles, Commission Staff has developed the rates set forth in Appendix E. These

rates will produce annual revenues of \$477,387 and would increase the monthly bill of a customer who uses 5,000 gallons of water from \$47.99 to \$63.82.

Commission Staff recommends that the Commission approve Ledbetter's proposed rates. These rates are shown in Appendix F and will produce annual revenue from sewer service sales of \$475,157. They will produce revenue sufficient to pay all pro forma cash expenses and service its debt.

Signatures



Prepared by: Daryl Parks
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis



Prepared by: Eddie Beavers
Rate Analyst, Communications, Water
and Sewer Rate Design Branch
Division of Financial Analysis

APPENDIX A
STAFF REPORT, CASE NO. 2012-00057
PRO FORMA OPERATIONS

	<u>Test Year</u>	<u>Adjustment</u>	<u>Ref.</u>	<u>Pro forma</u>
Operating Revenues				
Sewage Revenue	\$ 323,690	\$ 35,798	A	\$ 359,488
Miscellaneous Sewer Revenue	104			104
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Total Operating Revenue	323,794	35,798		359,592
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Operating Expenses				
Operation and Maintenance Expenses				
Collection System - Labor, Materials & Exp	90,039			90,039
Treatment System - Other	10,829	(434)	B	10,395
Purchased Power	25,811			25,811
Chemicals	12,402			12,402
Pumping System	5,546			5,546
Treatment and Disposal	253			253
Maintenance of Collection Sewer	4,537	18,319	C	22,856
Maintenance of Treatment and Disposal	4,145	(2,782)	D	1,363
Meter Reading	4,800			4,800
Office Supplies and Other Expenses	4,839			4,839
Outside Services Employed	5,124			5,124
Insurance Expenses	7,645			7,645
Employee Expenses and Benefits	30,843			30,843
Transportation Expenses	570			570
Miscellaneous General Expenses	1,879			1,879
Maintenance of General Plant	1,032			1,032
	<hr/>			
Total Operation and Maintenance Expenses	210,294	15,103		225,397
Depreciation	110,747			110,747
Taxes Other than Income	6,655	806	E	7,461
	<hr/>			
Total Operating Expenses	327,696	15,909		343,605
	<hr/>			
Utility Operating Income	(3,902)	19,889		15,987
Plus: Interest and Dividend Income	680			680
Miscellaneous Nonoperating Income	800			800
	<hr/>			
Income Available to Service Debt	\$ (2,422)	\$ 19,889		\$ 17,467
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APPENDIX B
STAFF REPORT, CASE NO. 2012-00057
EXPLANATION OF ADJUSTMENTS TO TEST-YEAR OPERATIONS

A) Revenue from Sewer Operations. Ledbetter reported test-year revenues from sewer rates in the amount of \$323,690. Ledbetter prepared and submitted a billing analysis with its application. In the billing analysis, test-year usages were summarized for each rate block of Ledbetter's rate design. By applying its current rates to the usages reported in the billing analysis, Ledbetter determined that test-year revenues should be restated to \$359,488, and therefore, increased the test-year amount by \$35,798. Commission Staff reviewed the billing analysis and agrees with Ledbetter's findings and recommends that the Commission accept this adjustment.

B) Treatment System – Other. Test-year expense for Treatment System – Other was reported at \$10,829. This amount includes testing done by Microbac Laboratories and vehicle expenses. For the year ending December 31, 2010, these amounts totaled \$10,395. Accordingly, test-year expenses were decreased by \$434 to account for the most recently reported annual expense.

C) Maintenance of Collection Sewer. Ledbetter reported Maintenance of Collection Sewer expenses of \$4,537 during the test year. Ledbetter proposed to increase this amount by \$18,319 to recover \$22,856. This amount is equal to the Maintenance of Collection Sewer expense incurred during the calendar year ending December 31, 2010. In support of its adjustment, Ledbetter states that the 2010 expense included normal electrical repairs on the lift stations and pumps and that, due to budgetary constraints, the test-year expenses were artificially low. In further support of its adjustment, Ledbetter noted that, in 2008, similar expenses were incurred in the amount of \$22,521. These expenses were reported in the Maintenance of Pumping System account. After reviewing the invoices charged to the Maintenance of Collection Sewer account during the test year and 2010, Commission Staff is of the opinion that the expenses incurred in 2010 better represent the normal, recurring expenses of Ledbetter.

D) Maintenance of Treatment and Disposal. For the test year, Ledbetter reported Maintenance of Treatment and Disposal expense of \$4,145. Ledbetter proposed to decrease this amount by \$2,782. It stated that the reduction is due to ice storm repairs that were nonrecurring. The expenses incurred in 2010 are more representative of Ledbetter's normal, recurring expenses. Commission Staff concurs with this adjustment.

E) Taxes Other Than Income – Ledbetter reported test-year Taxes Other Than Income expense of \$6,655. It proposed to increase this amount by \$806 to restate the expense to the amount reported for the year ended December 31, 2010. Commission Staff concurs with this adjustment.

APPENDIX C
 STAFF REPORT, CASE NO. 2012-00057
 COMPARISON OF REQUIRED REVENUE INCREASE

	Commission <u>Staff</u>	<u>Ledbetter</u>	<u>Difference</u>
Pro forma Operating Expense	\$343,605	\$ 341,375	\$ 2,230
Debt Service Subject to Coverage Requirements	112,718	112,718	
Debt Service Coverage at 120%	22,544	22,544	
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Total Revenue Requirement	478,867	476,637	2,230
Less: Miscellaneous Nonoperating Revenue	(800)	(800)	
Interest and Dividend Income	(680)	(680)	
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Revenue Required from Rates	477,387	475,157	2,230
Less: Pro forma Present Rate	359,592	359,592	
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Revenue Deficiency	<u>\$117,795</u>	<u>\$ 115,565</u>	<u>\$ 2,230</u>
Percentage to Present Rate Revenues	<u>32.76%</u>	<u>32.14%</u>	

APPENDIX D
STAFF REPORT, CASE NO. 2012-00057
SEWER DEPRECIATION SCHEDULE

Tax Asset Detail 1/01/09 - 12/31/09

FYE: 12/31/2009

Asset	d t	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
Group: BUILDINGS (UA)												
2		Office Bldg & Garage	12/01/96	38,604.30	0.00	0.00	11,900.44	965.11	12,865.55	25,738.75	S/L	40.0
		BUILDINGS (UA)		38,604.30	0.00c	0.00	11,900.44	965.11	12,865.55	25,738.75		
Group: ENGINEER COST (UA)												
8		Sewer Engineering Costs	12/01/96	283,287.05	0.00	0.00	87,345.72	7,082.18	94,427.90	188,859.15	S/L	40.0
62		Lift Station Relocation	12/11/07	2,422.00	0.00	0.00	65.60	60.55	126.15	2,295.85	S/L	40.0
		ENGINEER COST (UA)		285,709.05	0.00c	0.00	87,411.32	7,142.73	94,554.05	191,155.00		
Group: GENERAL & OFFICE EQUIPMEN												
10		Computer System	12/09/96	2,135.86	0.00	0.00	2,135.86	0.00	2,135.86	0.00	S/L	5.0
11		Hand Held Computer	1/10/97	1,000.00	0.00	0.00	1,000.00	0.00	1,000.00	0.00	S/L	5.0
13		Crawdad Boat	10/22/98	350.00	0.00	0.00	350.00	0.00	350.00	0.00	S/L	7.0
14		PH Probe	5/07/98	160.95	0.00	0.00	160.95	0.00	160.95	0.00	S/L	7.0
15		Full Body Harness	11/13/98	67.32	0.00	0.00	67.32	0.00	67.32	0.00	S/L	7.0
16		Defender 4 Gas Detector	11/13/98	929.57	0.00	0.00	929.57	0.00	929.57	0.00	S/L	7.0
17		1.0 LPM Regulator for 58 Cycles	11/13/98	129.78	0.00	0.00	129.78	0.00	129.78	0.00	S/L	7.0
18		Belican Case Model 1520	11/13/98	90.88	0.00	0.00	90.88	0.00	90.88	0.00	S/L	7.0
19		8" Blower w/Gas Engine & Hose	11/13/98	854.99	0.00	0.00	854.99	0.00	854.99	0.00	S/L	7.0
20		7' Tripod & 60' Galv. Winch	11/13/98	2,123.72	0.00	0.00	2,123.72	0.00	2,123.72	0.00	S/L	7.0
24		Femp Probe	5/07/98	247.00	0.00	0.00	247.00	0.00	247.00	0.00	S/L	7.0
25		Liftmore Electric Crane	9/15/99	2,539.00	0.00	0.00	2,539.00	0.00	2,539.00	0.00	S/L	7.0
26		Ramps	11/30/99	150.00	0.00	0.00	150.00	0.00	150.00	0.00	S/L	7.0
27		Backhoe	5/18/99	29,024.00	0.00	0.00	27,572.60	1,451.40	29,024.00	0.00	S/L	10.0
28		550 Gallon Tank	10/11/99	229.99	0.00	0.00	229.99	0.00	229.99	0.00	S/L	7.0
29		Television & VCR	8/03/99	209.92	0.00	0.00	209.92	0.00	209.92	0.00	S/L	5.0
30		Probe	12/08/99	359.00	0.00	0.00	359.00	0.00	359.00	0.00	S/L	7.0
31		Carport Sun Screen	8/27/99	935.00	0.00	0.00	935.00	0.00	935.00	0.00	S/L	7.0
32		Toolbox	6/24/99	203.77	0.00	0.00	203.77	0.00	203.77	0.00	S/L	7.0
33		Trailer	10/26/99	850.00	0.00	0.00	850.00	0.00	850.00	0.00	S/L	7.0
35		FE Myeres Pump	12/08/00	4,115.00	0.00	0.00	4,115.00	0.00	4,115.00	0.00	S/L	7.0
36		Blower Motor	6/27/00	500.00	0.00	0.00	500.00	0.00	500.00	0.00	S/L	7.0
37		1/3 of Computer	6/05/01	495.00	0.00	0.00	495.00	0.00	495.00	0.00	S/L	5.0
38		Germinical Lamp	9/18/01	1,835.10	0.00	0.00	1,835.10	0.00	1,835.10	0.00	S/L	7.0
39		Generator	12/19/01	1,200.00	0.00	0.00	1,200.00	0.00	1,200.00	0.00	S/L	7.0
40		Metal Detector	1/29/01	249.95	0.00	0.00	249.95	0.00	249.95	0.00	S/L	7.0
41		2 Used Portable Radios	4/17/01	300.00	0.00	0.00	300.00	0.00	300.00	0.00	S/L	7.0
42		1/2 of Tractor	2/25/02	3,489.50	0.00	0.00	3,489.50	0.00	3,489.50	0.00	S/L	5.0
46		Pump	5/04/04	948.33	0.00	0.00	676.92	135.48	812.40	135.93	S/L	7.0
47		Lift Motor	6/18/04	617.24	0.00	0.00	440.72	88.18	528.90	88.34	S/L	7.0
48		GOAT THROAT HAND-PRESSUI	1/25/05	346.53	0.00	0.00	193.88	49.50	243.38	103.15	S/L	7.0
49		ROPE FLOAT 30 SUSPENDED E	1/10/05	269.78	0.00	0.00	154.16	38.54	192.70	77.08	S/L	7.0
55		10 Ton hitch trailer	6/22/05	6,640.00	0.00	0.00	4,648.00	1,328.00	5,976.00	664.00	S/L	5.0
56		Blower	6/30/06	2,257.42	0.00	0.00	806.22	322.49	1,128.71	1,128.71	S/L	7.0
57		TRAILER 6.5 X 10	5/08/06	460.00	0.00	0.00	175.23	65.71	240.94	219.06	S/L	7.0
58		Chainsaw	10/29/07	239.96	0.00	0.00	39.99	34.28	74.27	165.69	S/L	7.0

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WALKER AND ASSOC CPAS

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Tax Asset Detail 1/01/09 - 12/31/09

FYE: 12/31/2009

Asset	d t	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
Group: GENERAL & OFFICE EQUIPMEN (continued)												
59		Used Trailer	11/20/07	2,000.00	0.00	0.00	309.52	285.71	595.23	1,404.77	S/L	7.0
64		BACKHOE BUCKET	8/11/08	1,044.69	0.00	0.00	43.53	104.47	148.00	896.69	S/L	10.0
66		SAMSUNG SCX 5635 COPIER	8/10/09	699.00	0.00c	0.00	0.00	58.25	58.25	640.75	S/L	5.0
GENERAL & OFFICE EQUIPMEN				70,298.25	0.00c	0.00	60,812.07	3,962.01	64,774.08	5,524.17		
Group: LAND												
1		Land - Hodge Landing Road	12/21/94	97,860.00	0.00	0.00	0.00	0.00	0.00	97,860.00	Land	0.0
LAND				97,860.00	0.00c	0.00	0.00	0.00	0.00	97,860.00		
Group: LINES (UA)												
5		Sewer Distribution Lines	12/01/96	2,329,254.49	0.00	0.00	718,186.44	58,231.36	776,417.80	1,552,836.69	S/L	40.0
6		Sewer Line Changes	8/15/97	50,000.00	0.00	0.00	12,084.00	1,250.00	13,334.00	36,666.00	S/L	40.0
7		1997 Line Additions	6/30/97	39,281.44	0.00	0.00	9,820.16	982.04	10,802.20	28,479.24	S/L	40.0
21		Tap Ons	10/01/98	642.00	0.00	0.00	168.20	16.05	184.25	457.75	S/L	40.0
22		Sewer Lines	7/07/98	1,314.00	0.00	0.00	345.40	32.85	378.25	935.75	S/L	40.0
23		API - Lines	2/01/98	1,756.23	0.00	0.00	460.64	43.91	504.55	1,251.68	S/L	40.0
34		Sewer Lines	6/30/99	2,171.70	0.00	0.00	516.16	54.29	570.45	1,601.25	S/L	40.0
60		Lift Station Repairs	1/30/07	32,780.00	0.00	0.00	1,570.71	819.50	2,390.21	30,389.79	S/L	40.0
61		LIFT STATION REPAIRS	11/29/07	7,646.25	0.00	0.00	207.09	191.16	398.25	7,248.00	S/L	40.0
65		Air Release Valve - Sewage	5/13/08	667.00	0.00	0.00	44.47	66.70	111.17	555.83	S/L	10.0
LINES (UA)				2,465,513.11	0.00c	0.00	743,403.27	61,687.86	805,091.13	1,660,421.98		
Group: PLANT & LAGOONS (UA)												
3		Plant & lagoons - Hodge Ldg	12/01/96	1,084,630.55	0.00	0.00	335,384.04	27,115.76	362,499.80	722,130.75	S/L	40.0
4		API Check #1191	2/06/97	29,543.82	0.00	0.00	8,616.40	738.60	9,355.00	20,188.82	S/L	40.0
43		New UV System	7/02/03	26,802.10	0.00	0.00	7,370.44	1,340.11	8,710.55	18,091.55	S/L	20.0
44		3 Gast Blowers, Compressor	7/22/03	1,950.00	0.00	0.00	1,073.00	195.00	1,268.00	682.00	S/L	10.0
45		3 Gate Valves	9/26/03	1,385.00	0.00	0.00	762.00	138.50	900.50	484.50	S/L	10.0
PLANT & LAGOONS (UA)				1,144,311.47	0.00c	0.00	353,205.88	29,527.97	382,733.85	761,577.62		
Group: UTILITY ASSETS												
9		Other Cost Inc. Interest	12/01/96	31,402.91	0.00	0.00	9,680.28	785.07	10,465.35	20,937.56	S/L	40.0
63		Telemetry Monitoring System	9/29/08	25,766.71	0.00	0.00	644.17	2,576.67	3,220.84	22,545.87	S/L	10.0
UTILITY ASSETS				57,169.62	0.00c	0.00	10,324.45	3,361.74	13,686.19	43,483.43		
Group: VEHICLES												
12		Dodge Ram Truck	12/16/96	17,966.00	0.00	0.00	17,966.00	0.00	17,966.00	0.00	S/L	7.0
54		2005 Chevy pickup	5/11/05	20,499.00	0.00	0.00	15,032.60	4,099.80	19,132.40	1,366.60	S/L	5.0

S/S - suspect

Tax Asset Detail 1/01/09 - 12/31/09

FYE: 12/31/2009

Asset	d t	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
Group: VEHICLES (continued)												
		VEHICLES		<u>38,465.00</u>	<u>0.00c</u>	<u>0.00</u>	<u>32,998.60</u>	<u>4,099.80</u>	<u>37,098.40</u>	<u>1,366.60</u>		
		Grand Total		<u>4,197,930.80</u>	<u>0.00c</u>	<u>0.00</u>	<u>1,300,056.03</u>	<u>110,747.22</u>	<u>1,410,803.25</u>	<u>2,787,127.55</u>		

APPENDIX E
STAFF REPORT, CASE NO. 2012-00057
RATES DETERMINED BY STAFF

First	2,000 gallons	\$ 25.21 Minimum Bill
Over	2,000 gallons	12.87 per 1,000 gallons
Unmetered		63.82 per Bill

APPENDIX F
STAFF REPORT, CASE NO. 2012-00057
RATES REQUESTED BY LEDBETTER

First	2,000 gallons	\$ 25.05 Minimum Bill
Over	2,000 gallons	12.80 per 1,000 gallons
Unmetered		63.45 per Bill

Billy Downs
Manager
Ledbetter Sewer District
P. O. Box 123
Ledbetter, KY 42058

Honorable David Edward Spenard
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